Guide to:

Operating Principles for Impact Management

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The Impact Investing Landscape

What is impact investing?

All investments have consequences—not just for individual investors, but also for whole communities and for the economy at large. In addition to creating financial returns for the investor, investments can create jobs and expand the provision of goods and services. They may also have positive and negative effects on society and the environment.

Investors increasingly recognize the need to avoid negative effects and to follow international norms and principles designed to address Environmental, Social and Governance (ESG) risks. Some investors avoid investments in specific industries that they see as causing harm – for example, tobacco and gambling. Impact investing goes well beyond avoiding harm and managing ESG risks. It aims to harness the power of investing to do good for society by choosing and managing investments to generate positive impact while also avoiding harm.

Impact investing can be defined as “investments made into companies or organizations with the **intent** to **contribute** to **measurable positive** social and environmental impact alongside financial returns.”[1]

In today’s capital markets, there is a broad universe of investors who seek to do good or avoid harm. These range from those who negatively screen for ESG risks, to those that actively seek ESG opportunities, to those who seek positive social and environmental impacts across their portfolios.

How does impact investing differ from mainstream investing?

Impact investing adds a second objective to managing an investment portfolio. In addition to aiming for financial returns, the impact investor also aims to achieve positive impact on targeted social, economic, or environmental goals. This requires integrating impact considerations, alongside financial considerations into the portfolio’s investment strategy, into decisions about whether to buy and sell assets, and into the information and data that investors monitor and manage.

As with other forms of investing, impact investors have different appetites for financial risk and different targets for financial returns. They may also target different impact goals, and scale of impact that they aim

1 Adapted from the Global Impact Investing Network (GIIN) (2019): https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing.

to achieve. Investing for impact does not imply having to sacrifice financial performance—an important consideration for investment managers who have fiduciary duties to their investors.

Foundations and philanthropic organizations, development finance institutions, and specialist impact fund managers were the pioneers of impact investing. Today, a much wider range of asset owners is seeking to achieve impact with their investments. To meet this demand, asset managers increasingly offer impact investment products alongside their mainstream investment products.

One segment of the impact investing market focuses on investments in social enterprises, or social enterprises that have explicit intent to achieve impact. However, many impact investors also find opportunities to achieve impact by investing in commercial enterprises that may not, themselves, have the intent to achieve impact. For this reason, the definition of impact investing rests on the investor's intent to have impact, not on the intent of the investee enterprise.

Why were the Operating Principles for Impact Management developed?

Investors are increasingly looking to invest with impact, and this is especially the case with women and millennials, who will control a greater portion of wealth in the coming years.[2] A growing number of investors are adopting the Sustainable Development Goals (SDGs)[3], and other widely recognized goals such as COP21,[4] as a reference point to illustrate the relationship between their investments and impact goals.

Despite the growth in the impact investing market in recent years, the lack of a common standard for what constitutes impact created confusion for investors. In response, International Finance Corporation (IFC) led the initiative to create a set of principles that provide a framework for impact investing – one that is focused on ensuring that impact considerations are purposefully integrated throughout the investment lifecycle. This initiative drew on the expertise and experiences of IFC and of leading asset owners, asset managers and other key market participants. By providing greater discipline and transparency in impact investing, IFC and the other Signatories intended to foster increased mobilization of capital for impact investments and increase the social and environmental impact that these funds could achieve.

[2] GIIN, 2018. Roadmap for the Future of Impact Investing: Reshaping Financial Markets
[3] The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations Development Programme. http://www.undp.org/content/undp/en/home/sustainable-development-goals.html.
[4] Cop21 refers to the 2015 United Nations Climate Change Conference in Paris, France, which negotiated the Paris Agreement that aims to keep global warming below 2°C. http://www.cop21paris.org/about/cop21

How were the Impact Principles developed?

The Impact Principles were developed by IFC drawing on its own impact management practices, and consulting with a range of asset owners, asset managers, wealth managers, multilateral development banks (MDBs), and development finance institutions (DFIs).

The Impact Principles draw on emerging best practices across a range of public and private institutions that are investing for impact. These include MDBs and DFIs that have both financial and development impact objectives, and decades of experience investing for impact in emerging markets. The Impact Principles also draw on the more recent experience of specialist impact funds, asset managers and asset owners that have developed robust impact management systems. In addition, they build on industry-wide initiatives around impact management, including the Impact Management Project (IMP).[5]

When were the Impact Principles launched?

On April 23, 2019, 60 global investors came together to launch the Impact Principles at the World Bank Group

(WBG) - International Monetary Fund (IMF) Spring Meetings in Washington, D.C. These First Adopters

became the initial investors committing to manage their impact assets in accordance with the Impact Principles.

Investor interest has grown since the launch, with more organizations having become Signatories.

[5] The IMP is an initiative focused on coalescing over 700 practitioners from different disciplines and geographies to build consensus about what is relevant when referring to and managing impact. For more information, see: http://www.impactmanagementproject.com/

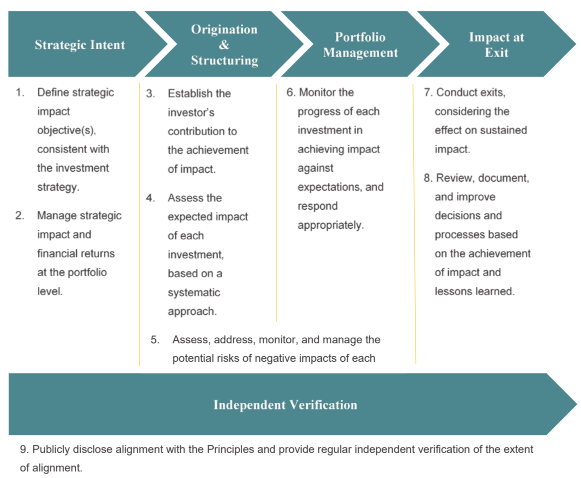
Operating Principles for Impact Management (the Impact Principles)

What are the Impact Principles?

The Impact Principles describe the essential features of **managing investment funds with the intent to contribute to measurable positive social or environmental *impact*,[6] alongside financial returns**. This goes beyond asset selection that aligns investment portfolios with impact goals (for example, the SDGs), to requiring a credible investment thesis of how the investment contributes to the achievement of impact.

The Impact Principles have been designed from the perspective of an end-to-end *process*. The five elements of this process are: strategy, origination and structuring, portfolio management, impact at exit, and independent verification. The nine Principles that fall under these five main elements are the key building blocks for a credible impact management system. As such, they aim to ensure that impact considerations are integrated into investment decisions throughout the investment lifecycle.

Operating Principles for Impact Management



The Impact Principles may be implemented through different impact management systems and are designed to be fit for purpose for a wide range of institutions and funds. Also, a variety of tools, approaches, and measurement frameworks may be used to implement the Principles. The Impact Principles do not prescribe which impacts should be targeted, or how impacts should be measured and reported.

They also complement other industry initiatives, such as IRIS+,[7] which seek convergence towards common approaches to impact measurement and reporting.

How can the Impact Principles be used, and by whom?

The Impact Principles are intended to be a reference point for investors for the design and implementation of their impact management systems. They may be implemented through different types of systems, which are designed to be fit for purpose for different types of institutions and funds. They do not prescribe specific

[6] The positive or negative primary and secondary effects produced by an investment, directly or indirectly, intended or unintended. Adopted from OECD-DAC.

[7] IRIS+ is the generally-accepted system of performance metrics used by many impact investors.

tools and approaches, or specific impact measurement frameworks. They do not provide guidance on how they are to be implemented. The ambition is that industry participants will continue to learn from each other as they implement the Impact Principles.

Frequently Asked Questions

Who can adopt the Impact Principles?

The Impact Principles are scalable and relevant to all types of impact investors and sizes of investment portfolios, asset types, sectors, and geographies. The Impact Principles may be adopted at the corporate, fund or investment vehicle level. Asset managers with a diverse set of investment products may decide to adopt the Impact Principles for only specific funds or vehicles that they consider impact investments and need not adopt the Impact Principles for the entirety of their assets. As well, asset owners that invest in bonds, funds and other investment vehicles may apply the Impact Principles to their own investment process. The Impact Principles do not have to be followed by the investee company, fund, or asset.

What is the process for becoming a Signatory?

To become a Signatory, an organization must complete and submit a Signatory Letter affirming its adoption of the Principles, provide its total assets under management (AUM), the assets that align with the Principles (Covered Assets), agree to provide an annual Disclosure Statement and periodic independent verification report, and pay a one-time Registration Fee. The first annual Disclosure Statement describing the Signatory's alignment with the Principles is due on or before the anniversary of the effective date of the Signatory Letter.

What is the cost of becoming a Signatory?

Signatories pay a one-time Registration Fee to cover the administrative costs of the Secretariat. The fee structure is based upon a Signatory's total AUM:

- Less than US$ 50MM: US$ 2,500
- US$50MM up to US$500MM: US$ 5,000
- US$500MM or greater: US$10,000.

What are the requirements and obligations of a Signatory?

Signatories commit to:

- Completion and submission of the Signatory Letter affirming its alignment with the Impact Principles for the assets which it designates in the Signatory Letter (Covered Assets);
- Publishing on its website an annual Disclosure Statement on or before the first anniversary of the effective date of the Signatory Letter. The Disclosure Statement will include the affirmation of its status as a Signatory to the Impact Principles, a list and total value of the assets aligning with the Principles, and a description of how each Principle is incorporated into its investment process;
- At regular intervals, providing an independent verification report that its impact management system is in alignment with the Impact Principles;
- Providing the Secretariat with a link to the Signatory's website page where the Disclosure Statement and independent verification report are displayed; and
- Payment of a one-time Registration Fee.

Is a Signatory required to be in alignment with all of the Impact Principles?

Alignment with all of the Impact Principles is required. However, the extent of alignment with each Principle may vary. The level of alignment with each Impact Principles would be described in the annual Disclosure Statement.

How does a Signatory implement the Impact Principles?

The Impact Principles are intended to be a guide for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. They may be implemented through different types of systems, each of which can be designed to fit the needs of an individual institution. They do not prescribe specific tools and approaches, or specific impact measurement frameworks. The expectation is that industry participants will continue to learn from each other as they implement the Impact Principles.

The way in which the Impact Principles are applied will vary by type of investor. Asset owners and their advisors may use the Impact Principles to screen impact investment opportunities. Asset managers and their advisors may use the Impact Principles to assure investors that impact funds are managed in a robust fashion.

What are the requirements of Principle 9 and independent verification?

The Impact Principles rely on self-reporting and transparency. Principle 9 requires that, in addition to the disclosure statement, each Signatory must provide regular independent verification of the alignment of its impact management systems with the Impact Principles. The verification may also highlight aspects of the systems and processes where alignment may be enhanced.

Independent verification may be conducted in different ways, for example, as part of a financial audit or through a portfolio/fund performance evaluation. The verification may be performed by an external third party or by an internal unit of the Signatory. If the verification is performed by an internal unit, the Signaotry must provide a description of the verification process and how it is separate from the operational units.

The frequency of the verification report may vary, depending upon the type of organization. If it is not performance on an annual basis in conjunction with the annual disclosure report, then the Signatory must disclose the frequency of the independent verification and the underlying rationale.

If the first verification report is not available when the first disclosure statement is submitted, then the Signatory must provide the date that it will be provided, how frequently it will be provided, and the name and qualifications of the independent verifier.

What is the value of being a signatory?

Signatories to the Impact Principles are impact investors that publicly demonstrate their commitment to implementing a global set of principles for managing investments for impact. The Principles instill a discipline around impact investing, enabling greater mobilization of capital for impact and fostering a high standard for the social and environmental impact that it can achieve. The Impact Principles assist investors in identifying investments that are being managed for impact and help reduce the dilution of the term ‘impact in the marketplace.

Signatories also become part of the community of leading impact investors working together to learn from one another as they develop and implement best practices in the management of impact investments. As ambassadors for the Impact Principles, many are leading roundtables and workshops or are being featured at industry conferences to showcase the Impact Principles and how asset owners and asset managers invest for impact

Asset Owners

Asset owners that become Signatories can have a profound influence on the growth of impact investing. By adhering to the Impact Principles, asset owners can articulate clearly in a a standardized fashion to their stakeholders – whether it be boards, pensioners, students, members, or otherwise – that they are managing investments for impact. The Impact Principles also allow asset owners to articulate clearly to prospective investment managers what they are seeing as they consider and approve impact investments. This clear message about what the asset owners consider to be impact investments will help mitigate the potential for impact dilution.

Asset Managers

Asset managers are seeking to meet the growing demand from investors looking to invest for impact. The Impact Principles define the systems and processes required to ensure that impact considerations are integrated throughout the investments lifecycle. As a Signatory, asset managers distinguish themselves to investors as committing to these best practices in managing funds for impact. They may brand themselves and/or their products as being aligned with the Impact Principles, thereby unlocking more capital for investments targeting impact.

Commercial Banks and Lending Organizations

Commercial banks and other lenders see the growing importance of aligning their portfolio with the SDGs and ensuring that their lending policies have a positive effect on society or the environment. As a Signatory, they would be signaling to shareholders and stakeholders their commitment to uphold this global standard for portfolios dedicated to impact. Their lending clients that also seek greater alignment with the SDGs would be supported in this effort with their loans being aligned with the Principles.

What are the Governing Provisions for the Impact Principles?

The governance structure of the Impact Principles is comprised of a Secretariat and Advisory Board. The Secretariat was created to oversee, administer, and support the continued promotion and adoption of the Impact Principles. The role of the Advisory Board is to advise the Secretariat on the implementation and evolution of the Impact Principles.

The first Advisory Board was elected by the Signatories in June 2019, each member serving a two-year term. The Advisory Board is chaired by a Convenor, who presides over meetings of the Advisory Board. IFC, as initial host of the Secretariat, is the initial Convenor.

How can I find out more?

More information can be found on the Impact Principles website at: www.impactprinciples.org.

Other Frequently Asked Questions

Are the Impact Principles applicable to both private and public markets?

The Impact Principles can be applied to any asset allocation made with the intent to contribute to measurable positive social, economic, or environmental impact, alongside financial returns. The Impact Principles require a credible investment thesis that explains how the investment (or program of investments) contributes to the achievement of impact. This is usually easier to establish for private asset strategies where additional capital flows to the enterprise and/or the investor has direct engagement with the enterprise. However, there may be active public asset strategies, or secondary market transactions, that also credibly contribute to impact. Sustainable investing strategies that align public equity and debt portfolios with impact goals (e.g., SDGs) or ESG standards, and secondary market transactions investing in impact investments must demonstrate a credible contribution narrative to the achievement of those impacts in order to qualify to adopt the Impact Principles.

What is the difference between these Principles and the Principles for Responsible Investing?

The PRI is an international network of investors working together to put a set of six responsible investment principles into practice. These are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practices. While the Impact Principles build on elements of the PRI, they are process-focused and designed specifically for investors that define themselves as impact investors.

How do the Principles relate to other initiatives in the impact investing space?

In developing the Principles, a number of existing initiatives within the impact investing industry have been consulted. The Principles build on and align with these initiatives. These include:

- The Global Impact Investing Network (GIIN) is an organization dedicated to increasing the scale and effectiveness of impact investing by facilitating knowledge exchange, highlighting innovative investment approaches, building the evidence base for the industry, and producing valuable tools and resources. The GIIN has identified impact measurement (and management) as a core component of impact investing.[8] The Principles define the elements of a credible impact management system.

- The Impact Management Project (IMP) is a consensus-built convention for impact management that provides practical norms for how organizations understand, measure, and manage their impact. The Principles provide the overarching elements of a credible impact management system, while the IMP provides implementation guidance for the integration of impact considerations into investment or business management decisions.

- A number of impact measurement tools (e.g. IRIS+, GIIRS, GRI, SASB, and HIPSO)[9] provide specific indicators and/or frameworks to help investors articulate and report the impact of their investments.

[8] GIIN, "What is Impact Investing". https://thegiin.org/impact-investing/need-to-know/#core-characteristics-of-impact-investing
[9] More information can be found via the following links: IRIS, GIIRS, GRI, SASB, and HISPO.

DISCLAIMER:

This Guide has been prepared for use by asset managers, fund general partners, and institutions (Managers) that are Signatories to the Impact Principles. The Guide should not be viewed as a required legal framework, but solely as a guidance document to assist Managers in implementing the Impact Principles. The Guide does not create any rights in, or ability to, any person, public or private. Managers use the Guide voluntarily and independently, without reliance or recourse to the International Finance Corporation, World Bank Group, or other signatories to the Impact Principles. When the Guide is used, the Manager should take into account all applicable laws and regulations in the country(ies) in which it is applied.

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